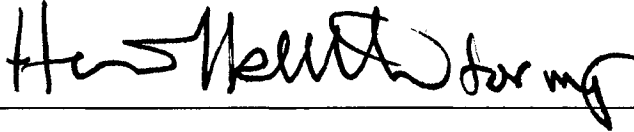


REPORT

DATE: September 14, 2006
TO: Community, Economic and Human Development Committee
FROM: Charlotte Pienkos, Government Affairs Analyst
Telephone: (213) 236-1811 E-Mail: pienkos@scag.ca.gov
SUBJECT: Proposition 1C

EXECUTIVE DIRECTOR'S APPROVAL:



RECOMMENDED ACTION:

Recommend a support position on Proposition 1C to the Regional Council.

SUMMARY:

Proposition 1C, the Housing and Emergency Shelter Trust Fund Act of 2006, will appear on the November 7th ballot. If approved by a majority of voters, Proposition 1C would authorize the issuance of \$2.85 billion in general obligation bonds for various housing programs. Although the appropriateness of using general obligation bonds for housing assistance has been questioned by some, the cost of the bonds is significant, and the General Fund monies otherwise available for other uses must be used to repay the bonds, a support position is recommended in light of SCAG's previous support for Proposition 46 in 2002 and the adopted Legislative Program, which call for support of funding initiatives designed to promote mixed-use and multimodal development.

BACKGROUND:

Thirteen propositions have qualified for the November 7, 2006 ballot.¹ Proposition 1C originated as SB 1689 (Chapter 27, Statutes of 2006), the Housing and Emergency Shelter Trust Fund Act of 2006, which was introduced by Senate President Pro Tempore Don Perata (D-East Bay). If approved by a majority of voters, Proposition 1C will authorize the issuance of \$2.85 billion in general obligation bonds for various existing housing programs, capital outlay and brownfield cleanup related to infill development and housing-related parks.

Purpose and Allocation

About 200,000 houses and apartments are built in California each year. Most are privately financed, but some are built with federal, state, or local government subsidies. Those subsidized dwellings are then rented or sold to people with low incomes. Previous subsidies have been funded by \$2.1 billion in proceeds from Proposition 46, which was passed by a majority of voters in 2002. Of Proposition 46's \$2.1 billion authorization, only \$350 million remains available for issuance today.

Proposition 1C continues the work started in Proposition 46 by funding thirteen new and existing state housing programs. Approximately one-half of the \$2.85 billion in bonding authority of Proposition 1C will be used for existing programs. Programs to develop housing are new; their details will not be known until the Legislature passes enabling legislation in 2007 if Proposition 1C passes.

REPORT

The major allocations of the bond proceeds are as follows:

Development programs (new)	\$1.35 billion
Grants for parks, water, sewer, transportation and environmental cleanup to facilitate infill development in urban areas.	\$850 million
Grants and loans to local governments and developers to encourage more dense development near public transportation.	\$300 million
Grant funding for parks throughout the state.	\$200 million
Homeownership programs	\$625 million
Variety of homeownership programs for low-income households.	\$290 million
Deferred low-interest loans up to 6% of home purchase for first-time low-or moderate-income homebuyers.	\$200 million
Grants to local governments that reduce barriers to affordable housing to be used for homebuyer assistance.	\$125 million
Grants to organizations that assist low- or moderate-income households in building or renovating their own homes.	\$10 million
Multifamily housing programs	\$590 million
Low-interest loans for housing developments for low-income renters.	\$345 million
Low-interest loans for housing projects that also provide health and social services to low-income renters.	\$195 million
Low-interest loans for housing projects that provide housing for homeless young people.	\$50 million
Other housing programs	\$285 million
Low-interest loans and grants for developing housing for farmworkers.	\$135 million
Grants and loans for pilot projects to develop housing at reduced costs (new).	\$100 million
Grants for developing homeless shelters.	\$50 million
TOTAL	\$2.85 billion

Support for Proposition 1C

Proposition 1C is supported by a diverse group of associations including, among others, California Chamber of Commerce, California Teachers Association, Sacramento Habitat for Humanity, San Diego Habitat for Humanity, Western Growers, California Labor Federation, Vietnam Veterans of California, AARP, Congress of California Seniors, State Building & Construction Trades Council, California Land Title Association, League of California Cities, Orange County Business Council, and California Partnership to End Domestic Violence.

Opposition to Proposition 1C

Opponents of Proposition 1C are fewer in number than its supporters. They include the Libertarian Party of California and California Taxpayers' Association (Cal-Tax). Cal-Tax opposes Proposition 1C because

...It is inappropriate to use long-term, state-level general obligation borrowing to subsidize various housing assistance programs. In this proposal, housing assistance programs create operating costs that must be financed by

30-year borrowing. This kind of ill-advised borrowing would dilute the state's capacity to pay for critical public infrastructure priorities that are appropriately financed by general obligation bonds.

Beyond the appropriateness of using general obligation bonds to finance housing programs, Proposition 1C represents a large expenditure of General Funds. It authorizes \$2.85 billion in general obligation bonds in principal, or \$8 billion total over the life of the bond. It is repayable from the General Fund, thereby making approximately \$204 million unavailable every year for other uses of interest to SCAG, such as transportation infrastructure improvements or RHNA reimbursements.

The effect of the passage of Proposition 1C on the state's debt-service ratio is dependent on whether other propositions pass. The Legislative Analyst's Office estimates that if all five general obligation bonds on the ballot pass, the state's debt will rise to 5.9 % of annual revenues in 2010-2011 and decline thereafter.

Position Recommendation

Although SCAG has no stated position on using general obligation bonds to finance housing programs as envisioned in Proposition 1C, the Regional Council has a history of supporting housing bonds, as it did with Proposition 46 in 2002.

Moreover, the adopted 2006 Legislative Program calls for SCAG to "support federal and state funding initiatives designed to promote mixed-use and multimodal development," which Proposition 1C does, at least in part, by designating \$300 million for grants and loans to encourage more dense development near public transportation.

Staff recommends a support position for Proposition 1C consistent with the Regional Council's previous support for Proposition 46 and the adopted 2006 Legislative Program's direction to support funding initiatives designed to promote multimodal development.

FISCAL IMPACT:

Adopting the recommended position has no fiscal impact on SCAG.

CP#125976

1

Legislative Constitutional Amendment
Proposition 1A: Transportation Investment Fund

Legislative Bond Act
Proposition 1B: Highway Safety, Traffic Reduction, Air Quality, Port Security Bond Act of 2006

Legislative Bond Act
Proposition 1C: Housing and Emergency Shelter Trust Fund Act of 2006.

Legislative Bond Act
Proposition 1D: Kindergarten-University Public Education Facilities Bond Act of 2006.

Legislative Bond Act
Proposition 1E: Disaster Preparedness and Flood Prevention Bond Act of 2006.

REPORT

Initiative Statute

Proposition 83: Sexually Violent Predators, Punishment, Residence Restrictions and Monitoring.

Initiative Bond Act

Proposition 84: Water Quality, Safety and Supply, Flood Control, Natural Resource Protection, and Park Improvements.

Initiative Constitutional Amendment

Proposition 85: Waiting Period and Parental Notification before Termination of Minor's Pregnancy.

Initiative Constitutional Amendment and Statute

Proposition 86: Tax on Cigarettes.

Initiative Constitutional Amendment and Statute

Proposition 87: Alternative Energy, Research, Production, Incentives, and Tax on California Oil.

Initiative Constitutional Amendment and Statute

Proposition 88: Education Funding, and Real Property Parcel Tax.

Initiative Statute

Proposition 89: Political Campaigns, Public Financing, Corporate Tax Increase, Contribution and Expenditure Limits.

Initiative Constitutional Amendment

Proposition 90: Government Acquisition and Regulation of Private Property.